HOW CAN CORPORATE SOCIAL RESPONSIBILITY AND THE UNITED NATIONS GLOBAL COMPACT ADDRESS THE GLOBAL GOVERNANCE “DEFICIT”?

Jonas Borgmeier

Global Governance – Michal Kolmas, Ph.D.

Content

Introduction

In our globalized world multinational companies (MNCs) can take advantage of the less powerful workers, local communities and the natural environment without necessarily being held accountable for it. There is no central authority governing the international business arena and countries´ regulations are limited by their national borders. This creates a vacuum of power which can also be referred to as a "Global Governance Deficit" (Arend 1999; Scherer, Baumann-Pauly, and Schneider, A. 2013; Schneider, A. and Schmidpeter 2015).

This paper discusses the Global Governance Deficit (GGD) by elaborating on the concept of Corporate Social Responsibility (CSR) and analyzing the United Nations Global Compact (UNGC) as potential measures that can reduce the deficit of global governance. In other words, it develops a response to the research question: How can CSR and the UNGC address the Global Governance Deficit? In order to develop an answer, this work firstly recognizes the current state of affairs including the approaches to deal with the GGD. Secondly, the concept of CSR will be introduced, being followed by the third section regarding the UNGC. Fourthly, the contributions of both approaches to the reduction of the GGD will be explained. Fifthly, these are criticized and finally, a concluding answer to the research question will be composed. Methodologically, this research is based on the review and analysis of the existing literature.

Current State of Affairs

Historically, the term governance was only used in the context of national governments and their institutions, but this has changed due to the globalization in which various national as well as international interest-groups are eager to become more powerful and to push forward their agenda (Rosenau 1997). Nowadays, the GGD describes the situation in which national states do not have the power to regulate the economic and social dimensions. Stakeholders, like the MNCs, but also other international organizations, like the International Monetary Fund or the World Trade Organization, significantly influence the decision-making process (Chiraz and Frioui 2012).

Focusing on the capabilities of the state, a country is limited in its actions to establish binding global regulations, but still has the possibility to form alliances with other powerful countries which would allow them to gain more power jointly. However, it can be noticed that governments even reduce their power themselves by deregulating the markets or privatizing national companies (Strange 1996). This may be the result of the global competition of states which rival with each other to become the most attractive to MNCs. Consequently, they introduce market-oriented reforms and reduce the size of the welfare state (Braithwaite and Drahos 2001; Cashore and Vertinsky 2000). Thus, it can be noticed that governments tend to cooperate with companies on the same level rather than restricting them from a higher hierarchical position (Murtha and Lenway 1994).

Addressing the Global Governance Deficit, international organizations, the civil society or private businesses have created different approaches, trying to develop a fair and rule-based structure (Scherer, Baumann-Pauly, and Schneider, A. 2013). For example, private sector actors have introduced the concept of Corporate Social Responsibility – which will be explained in more detail in the next section – to act against ecological and social challenges (Bernstein and Cashore 2007). More and more businesses step up and take action to reduce the GGD (Crane, A. et al. 2008). It can be witnessed that companies sometimes take the role of a state by ensuring civil and political rights within their international business environment. In addition, they use their resources to impact social life by investing in projects, creating innovations, sharing expertise, manufacturing goods as well as providing jobs. They also have access to media and entertainment which gives them the chance to spread their worldviews. Based on their dominant position, they are also able to shape environmental policies and working conditions (Matten, Crane, A., and Chapple 2003).

Furthermore, MNCs have become crucial and powerful actors in the globalized world. Alongside with this, demands to enact upon their CSR have increased as well (Detomasi 2007). Societies expect companies to reduce the GGD by engaging in initiatives or offering public goods, that local governments fail to provide (Scherer, Palazzo, and Baumann 2006).

Corporate Social Responsibility

Within public discussions, the business world as well as in the scholarly debate, more and more attention is payed to the concept of CSR (Aguinis and Glavas 2012; Crane, A. et al. 2008; Scherer and Palazzo 2011). Not only MNCs but also large domestic companies as well as small businesses voluntarily engage in initiatives that aim to improve the status quo in the social or environmental dimension. This means that they take measures such as introducing a code of conduct, making the value chain more sustainable, becoming certified and communicating with their stakeholders. The latter aspect is a key factor because only by discussing and learning about the expectations and demands of the surrounding actors a company is able to meet them appropriately. This may result in cooperations with NGOs or the UN on the large scale or – not less important – support for projects in the local community (Utting 2005).

The Modern History of CSR can be traced back to Howard Bowen who is considered to be the "Father of CSR" (Carroll 1999). He defined the responsibility of a businessman as an obligation to follow his strategies that aim at achieving desirable goals for the overall society (Bowen 1953). CSR was widely discussed throughout the 20th century which led to the development of the ISO 26000 at the beginning of the 21st century. It is a guide for social responsibility which it defines as the action of an organization which holds itself responsible for the consequences of its actions for the society and environment. Additionally, transparent and ethical actions are considered to be the basis for fair relationships with stakeholders (Federal Ministry of Labour and Social Affairs 2011). Stakeholders consist of people and groups that have an interest in or are affected by the decisions and activities taken by an organization (Wilson 2003).

Regarding international institutions, the European Commission addressed the topic of CSR in the context of its strategy of continuous economic growth, better working conditions and social cohesion for the first time in the year of 2001 (European Commission 2001). Ten years later, it defined CSR as the responsibility that bsinesses have to take for the consequences of their actions. It recommends business managers to work together with their stakeholders to achieve a sustainable social, ecological and ethical environment that also respects human rights and consumer interests. The overarching aim is to promote the optimization of the status quo (European Commission 2011).

Focusing on the United Nations, the creation of the UNGC in the year of 2000 was another important milestone for the development of global CSR which will be analyzed in more detail in the next chapter (Post 2013). More recently, the proclamation of the seventeen Sustainable Development Goals (SDGs) being part of the Resolution "Transforming our World: the 2030 Agenda for Sustainable Development" by the United Nations in the year 2015 can be seen as a next step showing the importance of CSR. For the first time, companies, being representatives of the private sector, were involved in the development of the agenda regarding sustainable development. The SDGs consist of universal goals that partly aim at the involvement of companies. For example, Goal 17 "Partnership for the Goals" asks public and private sector agents to share their knowledge, expertise, technology as well as financial resources. This gives companies the opportunity to align their CSR-strategy with the SDGs (United Nations General Assembly 2015).

United Nations Global Compact

Having become familiar with the concept of CSR, this paper further focuses on the UNGC which is perceived as the most prominent self-regulatory approach to global governance. The network combines companies and members of the civil society. The UN General Secretary, Kofi Annan, initiated the creation of the UNGC at the World Economic Forum in 1999. He intended to start a dialogue between the UN and MNCs asking companies to become more actively involved in solving global issues. The UNGC was officially founded in the year of 2000 and consists of more than 10,000 participants. This can be seen as an example for extraordinary growth in comparison with other voluntary global governance initiatives. Being the biggest voluntary global governance organization, it has significant momentum to appeal to a company's social and ecological responsibility. The UNGC plays a crucial role in promoting CSR and pushing its agenda. This leads to continuous discussions and as a result, ten principles of the UNGC were defined which will be introduced in the following (Kell 2013; Rasche 2009; Voegtlin and Pless 2014).

The ten principles address companies and include guidelines regarding human rights, labor standards, environment and anti-corruption. Focusing on human rights, businesses should actively protect the internationally recognized rights and make sure that they do not violate them unintentionally, e.g. within their value-chain of production. Furthermore, four principles pay attention to issues regarding the working conditions. Companies should give employees the possibility to organize themselves in labor unions as well as they should ensure that all types of forced labor, child labor and discrimination are abolished. Moreover, the UNGC asks companies to take responsible actions that prevent environmental problems, to educate and to support the development of sustainable solutions in the business world. Finally, the 10th principle states that companies should fight any forms of corruption (United Nations 2004).

In order for interested companies to join the UNGC they have to take part in a rather simple application process incentivizing businesses to join. For example, it encompasses a motivation letter signed by the CEO that convincingly communicates the company´s commitment to comply with the ten principles. After being accepted as a member, companies have to show their development transparently by writing a 'communication on progress' report once a year (UN Global Compact 2018).

Contributions

Based on the detailed introduction of the two concepts it is worth taking a look at how they can address the GGD and improve the current affairs.

Proponents see CSR as more responsive and sustainable form of regulation, taking social concerns into account (Levy and Kaplan 2008). Furthermore, it is assumed that the attention which the debate about CSR raises can serve as a valuable instrument to impact corporate norms and practices positively. Academics argue that the CSR discourse may strengthen the position of stakeholders, channel expectations of the society towards companies and arouse media attention that put pressure on companies to comply with their CSR (Crane, A. et al. 2008). As a result, MNCs may be held responsible when their suppliers violate human rights, or the company neglects its responsibility to act against global warming. Further, CSR has changed the business framework fundamentally, new systems have been established regarding CSR issues, including e.g. initiatives of self-regulations within industries or specialized consultancies offering expertise to companies willing to improve their CSR performance. Consequently, businesses adjust their processes and create CSR management offices within the company and take proactive measures such as agreeing on international standards within their industries.

Moreover, CSR measures can be profitable for businesses because CSR can offer win-win opportunities and competitive advantages. This is referred to as the "Business Case CSR". For example, if a company invests in a more efficient production line, it improves the sustainability and creates a better reputation. At the same time it also reduces production costs and increases the profit (Schneider, A. and Schmidpeter 2015). In other words, CSR can serve companies to gain social acceptance and to become more profitable. In addition, gaining a good CSR reputation helps to influence activist shaping public opinion and to reduce regulatory pressures by taking preventive actions (Crane, A. et al. 2008).

Focusing on the UNGC, proponents argue that it recognizes companies not just as a cause for problems but also as an important part of the solution of global issues. It offers businesses the opportunities to act responsibly and start internalizing the real costs of their negative footprint which have not been accounted for before (Williams 2014). Advocates for the UNGC further highlight its ability to establish a dialogue between international agents, representatives of the society, and MNCs to reach an agreement about fundamental ethical standards (Kell and Levin 2003; Rasche 2009). As an organization, the UNGC gives a platform for the exchange of expertise and discussions among the members (Rasche 2009). Furthermore, the low barrier of becoming a member allows business managers to get familiar with the concept without directly being confronted by high costs. Further, it is stated that the labelling to be part of the UNGC raises awareness, increases transparency and therefore, also increases the public pressure on the company to improve continuously. In other words, the UNGC is a relatively easily accessible organization in which companies can be introduced to the concept of CSR. It further gives incentives to reflect on the concept and to start a debate. Consequently, it provides access to companies that do not live up to their CSR, which are also the ones that can improve the most to create a substantial positive effect (Voegtlin and Pless 2014).

Critique

Recognizing the advantages, shortcomings and disadvantages also need be discussed. This will be structured by focusing specifically on the CSR as well as on the UNGC and finally debating the topic more generally.

CSR is criticized for being relatively narrow-minded because it mostly trusts the logic of the business world and the market mechanism. This means that MNCs´ interest in CSR is mainly motivated by possible financial gains and increased political power (Crane, A. et al. 2008). Therefore, some consider proponents of CSR to be naïve because they assume that it would be sufficient that NGOs and consumer protectionists put pressure on companies in order for them to fulfill their responsibilities. This follows the logic that companies act because they do not want to endanger their positive brand appearance. In addition, critics point out that CSR has failed to prove its positive effect because working conditions in developing countries remain poor and even in developed countries, employees are confronted by rising inequalities, broken health care systems and insufficient pension payments (Crane, A. et al. 2008). Moreover, empirical studies show that there is actually a rather weak relationship between the degree of social responsibility and the degree of financial success questioning the business case CSR (Griffin and Mahon 1997) .

Taking a closer look at the UNGC, three main issues can be criticized. First, to the fundamental critics of the overall globalization regime the UNGC actually manifests the existing system that exploits not only the people but also the planet.

Second, opponents are worried that MNCs become too dominant within the UNGC, that the organization itself remains insufficient and that it therefore becomes obsolete in the future. They claim that the success of the UNGC is limited to enlarging the number of members but no substantial improvements have been achieved (Sethi and Schepers 2014).

Third, it is stated that the insufficient oversight over the compliance and the inability to enforce it, allows companies to disregard their CSR goals and to use the UNGC for greenwashing. (Behnam and MacLean 2011; Williams 2014). The term greenwashing describes a situation in which a company publicly claims that it takes actions as part of its CSR but actually neglects doing so. This can be viewed as stakeholder fraud. If this is detected, it harms the credibility of the company (Schneider and Schmidpeter 2015). Moreover, the lack of standardized reports on improvements limits the transparency which does not solve the issue of information asymmetries between insiders in the companies and outsides being stakeholders (Berliner and Prakash 2012).

In more general terms, it needs to be recognized that MNCs are likely to prioritize projects that improve their public appearance and neglect investing their resources in sustainable improvement with the maximum impact for all stakeholders. Additionally, by acting in a state-like role, MNCs further weaken the position of the states that compete with the companies for legitimization. For example, popular measures conducted by businesses benefiting them and the state's unseen activities are not recognized and may therefore be questioned (Levy and Kaplan 2008). Even more fundamentally, it is questionable how state-like business action can actually be democratically legitimized since the people did not give companies a valid mandate for their activities and there are no sovereign institutions overseeing these actions (Scherer, Palazzo, and Baumann 2006).

Conclusion

In summary, this paper defines CSR as the responsibility companies should take for the consequences of their actions and views the UNGC as one of the most prominent self-regulatory organizations regarding CSR. Addressing the GGD, both can contribute to the reduction of the deficit by promoting responsible business behavior through various measures such as informing about the business case CSR and offering platforms for knowledge sharing and education. CSR allows multi-level coordination among various types of actors to address global issues with but also without the governmental support (Haufler 2001). The UNGC serves as a valuable organization for companies to become familiar with the concept of CSR (Berliner and Prakash 2012).

However, this needs to be viewed critically because CSR may overestimate the goodwill of companies, the UNGC may be insufficient to push for sustainable improvements and MNCs may take advantage of their state-like role without democratic legitimization.

All in all, CSR and the UNGC are not only popular but also controversial topics. It may be added that the increasing complexities demand holistic approaches giving the CSR concept and the UNGC the task to further improve in the future (Haas 2004). Contemplating the Global Governance Deficit and the limited power of states, both approaches may not be the optimal but still the best approach for improving ethical, moral, social and environmental standards in todays globalized world (Williams 2014).

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